

SOCIAL SECURITY PLANNING

How to Potentially Maximize Your Income

What You Need to Know Before Starting Your Benefits

Presented by: Ali Swofford, PhD, CLU, ChFC

President Knoxville Chapter AFEA



Today's Instructor:

Ali Swofford, PhD, CLU, ChFC





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Refreshments & Restrooms

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Please keep questions general.

Specific questions?
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strategy session!

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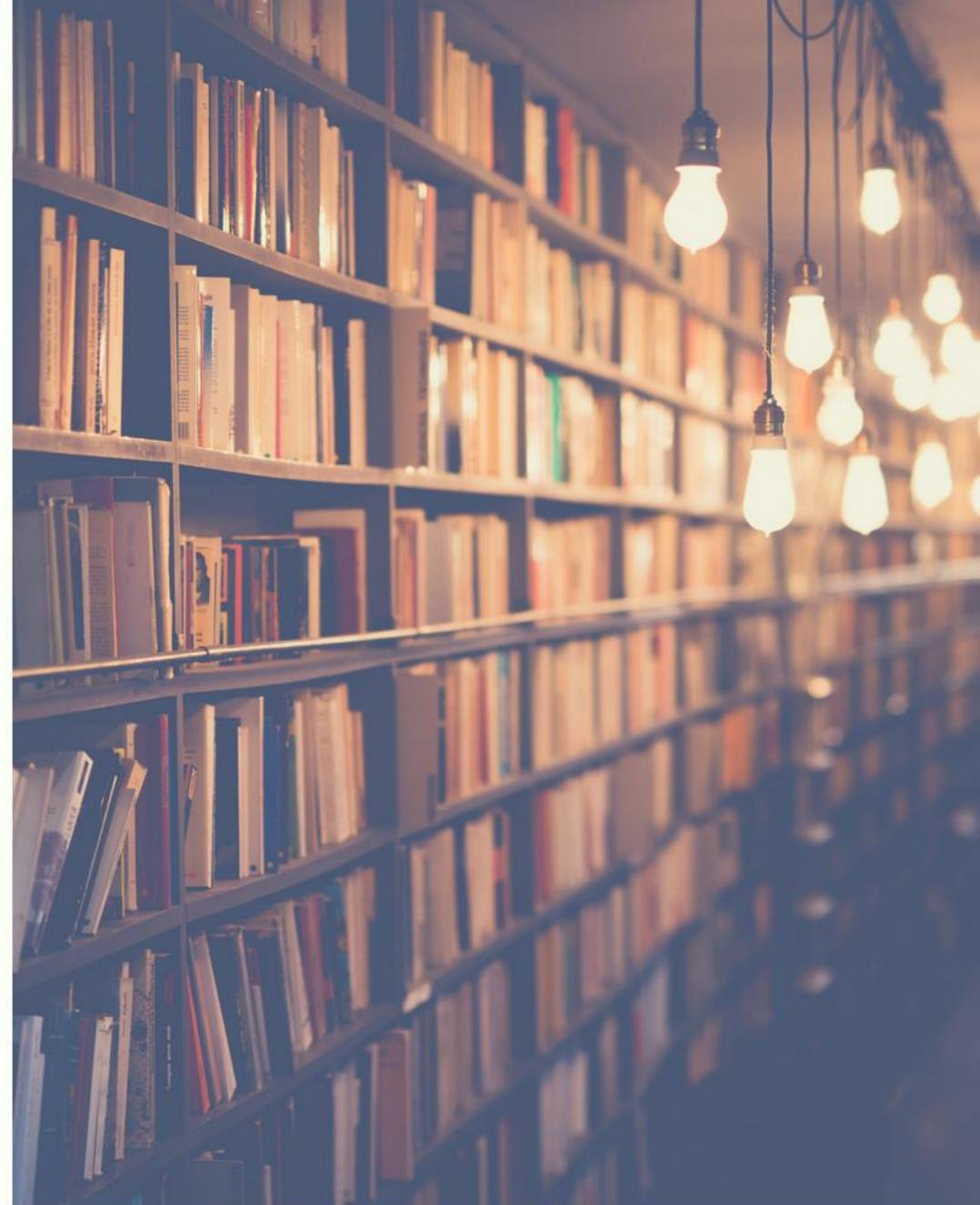
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The presentation is not intended to be legal or tax advice. The presenter can provide information, but not advice related to social security benefits. Clients should seek guidance from the Social Security Administration regarding their particular situation. The presenter may be able to identify potential retirement income gaps and may introduce insurance products, such as an annuity, as a potential solution. Social Security benefit pay out rates can and will change at the sole discretion of the Social Security Administration. For more information, please direct your clients to a local Social Security Administration office or visit www.ssa.gov.



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You will also notice that many of the slides in this presentation will have the workbook page number in the upper right-hand corner, where you can find the information being discussed.

Take lots of notes. This information is all for you!

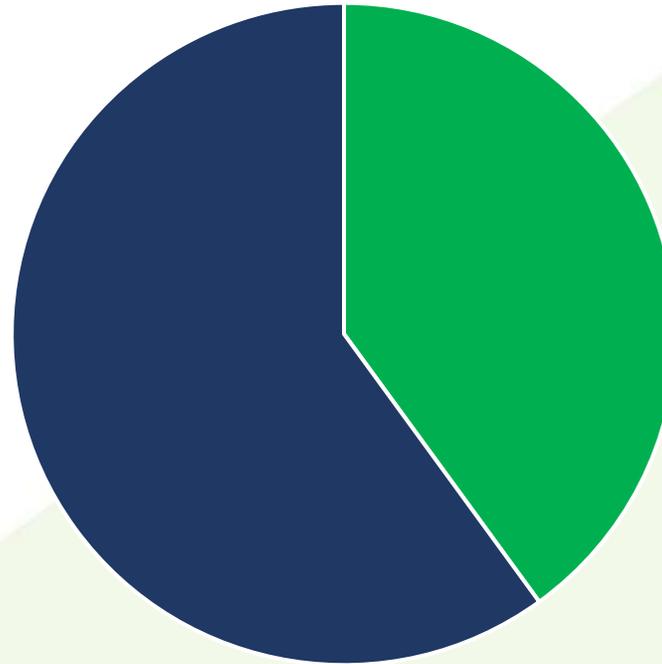
Enjoy!”

What is Social Security to the average earner?

60%

Income from other sources

(Retirement Plan Distributions, Annuities, Brokerage Accounts, IRAs, 401Ks, 403Bs and other savings)



40%

Social Security Benefits



How complex is Social Security?

There are multiple claiming strategies, 81 age combinations, and more than 567 different sets of calculations to consider when determining how and when to apply for benefits.

Making the wrong decision could cost well over \$100,000 during your lifetime!

Will Social Security benefits be there for you?



Prevent identity theft—protect your Social Security number
Your Social Security Statement www.socialsecurity.gov
Prepared especially for Wanda Worbler

January 2, 2014

Go online for your personal information →

WANDA WORBLER
456 ANYWHERE AVENUE
MARTOWN, USA 11111-1111

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What Social Security Means To You

This Social Security Statement can help you plan for your financial future. It provides estimates of your Social Security benefits under current law and updates your latest reported earnings.

Please read this Statement carefully. If you see a mistake, please let us know. That's important because your benefits will be based on our record of your lifetime earnings. We recommend you keep a copy of your Statement with your financial records.

Social Security is for people of all ages...

We're more than a retirement program. Social Security also can provide benefits if you become disabled and help support your family after you die.

Work to build a secure future...

Social Security is the largest source of income for most elderly Americans today, but Social Security was never intended to be your only source of income when you retire. You also will need other savings, investments, pensions or retirement accounts to make sure you have enough money to live comfortably when you retire.

Saving and investing wisely are important not only for you and your family, but for the entire country. If you want to learn more about how and why to save, you should visit www.saving.org, a federal government website dedicated to teaching all Americans the basics of financial management.

About Social Security's future...

Social Security is a compact between generations. Since 1945, America has kept the promise of

security for its workers and their families. Now, however, the Social Security system is facing serious financial problems, and action is needed soon to make sure the system will be sound when today's younger workers are ready for retirement.

Without changes, in 2033 the Social Security Trust Fund will be able to pay only about 77 cents for each dollar of scheduled benefits.* We need to resolve these issues soon to make sure Social Security continues to provide a foundation of protection for future generations.

Social Security on the Net...

Visit www.socialsecurity.gov on the Internet to learn more about Social Security. You can read publications, including *How to Start Receiving Retirement Benefits*, use our Retirement Estimator to obtain immediate and personalized estimates of future benefits, and when you're ready to apply for benefits, use our improved online application—It's so easy!

Carolyn W. Colvin
Acting Commissioner

* These estimates are based on the intermediate assumptions from the Social Security Trustees' Annual Report to the Congress.

2009 Statement: 2014 Statement:

In 2016 we will begin paying more in benefits than we collect in taxes. Without changes, by 2033 the Social Security Trust Fund will be exhausted* and there will be enough money to pay only about 77 cents for each dollar of scheduled benefits. We need to resolve these issues soon to make sure Social Security continues to provide a foundation of protection for future generations.



Will it be enough?

What other income sources will you have after you retire?

Are any of these sources guaranteed to provide income throughout your retirement?

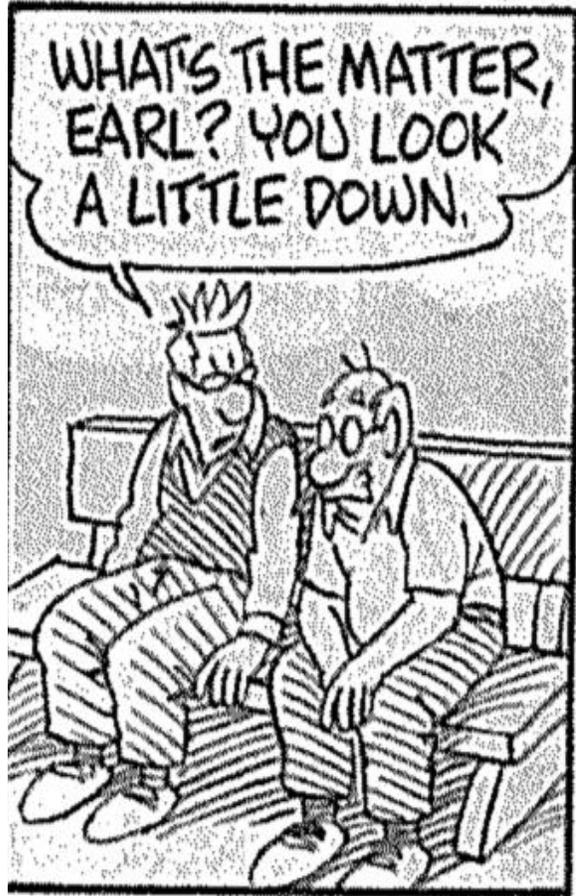
So, what is the number one
“WILL I OUTLIVE MY MONEY?”
question retirees ask?

54%

Of Americans are worried about not
being able to maintain their current
standard of living.*



How Much Do You Have?
Really??



ACCORDING TO STATISTICS, I HAVE A BETTER THAN FIFTY PERCENT CHANCE OF LIVING TO THE AGE OF EIGHTY-SEVEN.



It depends...

Assets

**Social
Security**

Which Horse Do You Ride First?

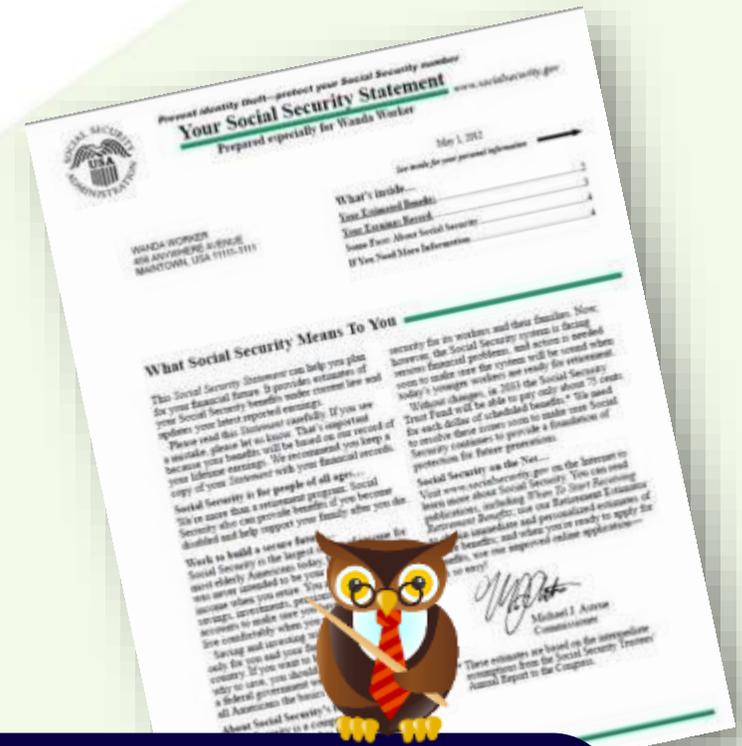


THREE PIECES OF THE SOCIAL SECURITY BENEFIT OPTIONS PUZZLE

1. Determining what your Social Security benefit will be
2. Understanding what options are available to you
3. Maximizing your lifetime benefit

Your Social Security Statement

- Summarizes your earnings that were subject to payroll taxes
- Shows how much you and your employer(s) paid in Social Security and Medicare taxes
- Estimates your retirement benefits based on retiring at different ages



Noteworthy: “Your Primary Insurance Amount (or PIA) is the amount upon which all of your benefits are based. It is determined by the average of the highest 35 years of indexed earnings in which you paid payroll taxes. If you were employed less than 35 years, worked part-time, or had long periods of unemployment, the years in which you had low or zero earnings will be averaged into your calculation and might lower the total benefit available to you.”

NOW WHAT?

- Eligible vs. Entitled
- WEP and GPO
- COLA – Cost of Living Adjustments
- Claiming Age
- Working After Making Your Claim
- Taxation of Benefits
- Spousal Benefits
- Common Claiming Strategies

Some Important Definitions

An **eligible** worker is one who has

- accumulated the minimum number of credits of work for Social Security benefits
- and is at least 62 years old.

An **entitled** worker is one who has

- applied for benefits - whether or not they are receiving the benefits or have suspended them.

Deemed Filing requires that a claimant filing for ANY benefit before their FRA must file for ALL benefits available to them at that time.

WEP & GPO

WEP – Windfall Elimination Provision

- ✓ Reduces your benefit if you receive a pension from a federal, state, or local government based on work where Social Security taxes were not taken out of your pay

GPO – Government Pension Offset

- ✓ Reduces your spouse's or widow's or widower's benefits if you receive a pension from a federal, state, or local government based on work where you did not pay Social Security taxes

CLAIMING AGE

Earliest age: 62

Full Retirement Age (FRA):

- 66 (born 1943-1959)*
- 67 (born 1960 or later)

Latest Age: 70

* If you were born 1955 -1959 see FRA age in workbook

How will working impact your Social Security benefits?

AGE	2019 EARNED INCOME LIMITS	REDUCTION
62 to Full Retirement Age	\$17,640	For every \$2 over the limit, \$1 is withheld from your benefits
Full Retirement Age*	\$46,920	For every \$3 over the limit, \$1 is withheld from your benefits
After Full Retirement Age	No limit on earnings	None



*During the year in which you reach FRA you can earn up to \$46,920/year before the month you reach FRA without any withholding. If you make more than the \$46,920 before the month of FRA then the \$1 for every \$3 withholding takes effect for income earned prior to reaching FRA in that year.

Provisional Income:

- ✓ Provisional Income - is the sum of all your income (including tax-free municipal bond interest) plus half of your Social Security income.
- ✓ Common sources of income calculated in Provisional Income:
 - 1/2 of Social Security Income
 - Wages, if employed
 - Distributions from 401(k)s and IRAs
 - Interest and dividend income – including interest on “tax-free” Muni-Bonds
 - Capital gains
 - Pension payments
 - Taxable portion of inheritance

How are Social Security Benefits Taxed?

SINGLE FILING		MARRIED FILING JOINTLY	
Provisional Income	Taxable Benefits	Provisional Income	Taxable Benefits
Under \$25,000	0%	Under \$32,000	0%
\$25,000 - \$34,000	Up to 50%	\$32,000 - \$44,000	Up to 50%
Over \$34,000	Up to 85%	Over \$44,000	Up to 85%



Noteworthy:

These tables have been the same since 1985!

What would happen if a married couple required \$40,000 to maintain their standard of living and one of them dies?

Still needing the 40,000 to maintain the surviving spouse's lifestyle what changes if any would take place with their taxes?

Coming Up Next...

1. Spousal Benefit
2. “File and Restrict” Strategy
3. “Do Over” (or “Reset”) Strategy
4. “Start, Stop, Restart” Strategy



**TIME FOR
A BREAK**



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consultation please visit
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Spousal Benefit Options

Option 1: Individual Benefit

- ✓ Each spouse collects their individual benefit

Option 2: Spousal Benefit

- ✓ Lower-earning spouse collects up to 50% of the higher-earner's full benefit

Option 3: Survivor Benefit

- ✓ Widowed spouse collects up to 100% of the deceased spouse's benefit

Some important aspects to know about Spousal Benefits:

- ✓ In order to claim a Spousal Benefit, you must be at least **62 years old** (or have a qualifying child in your care,) and have been **married for at least one year**. By a qualifying child, we mean a child who is under age 16, or who receives Social Security disability benefits.
- ✓ If you elect to receive a Spousal Benefit **before** you reach **your** full retirement age, your spousal benefit will be **permanently reduced**, unless you have a qualifying dependent child, in which case the spousal benefit is not reduced.
- ✓ If you claim a Spousal Benefit **before** you reach full retirement age, you **will not** be able to switch to your own retirement benefit at a later date.

If you start your own regular benefit early and switch to a Spousal Benefit when you reach full retirement age, you will not receive the full spousal amount!

Since your own benefit was reduced for early election you will only be able to add the Spousal excess portion... the result would be less than 50% of your Spouse's benefit.



In the Event of Divorce...

If you are divorced, you may be entitled to Spousal Social Security benefits if:

- You are at least 62 years old
- You were married for at least 10 continuous years
- You are unmarried
- Your ex-spouse is entitled
 - ✓ You may be “independently entitled” without your ex-spouse being entitled if:
 - Your ex-spouse is 62 or older
 - Your divorce has been final for at least two years
 - Your own worker benefits would be less than 50% of your ex’s Primary



The Bi-Partisan Budget Act of 2015 – Passed into Law on 10/29/2015

- In General the impact to Divorcee’s is similar to that of married couples
- If Divorcee is Independently Entitled then voluntary suspension rules don’t apply
- Access to “Restricted Application” stops for those born on or after 1/2/1954

Survivor Benefits

If you are widow or a widower, you are eligible to collect either your own benefits or 100% of your deceased spouse's benefits, whichever is greater.

- You are at least 60 years old – Reduced Benefit prior to FRA
- You must have been married for at least 9 months (or 10 years, if divorced)
- You remain unmarried until after the age of 60

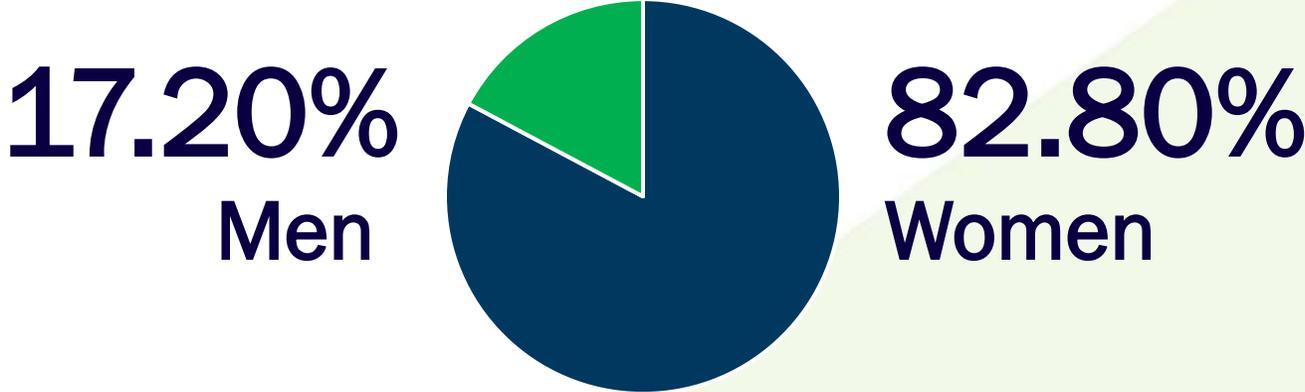


The Bi-Partisan Budget Act of 2015

- Passed into Law on 10/29/2015
- No Change to Survivor Benefits
- Widows can still Restrict to only Widow or Retirement benefits and later switch to other benefit
- Deemed Filing does not apply to Survivors Benefits

Maximizing Lifetime and Survivor Benefits is Critical

American Centenarians in 2010: 53,364



Statistically, women outlive men by 5 to 10 years

Life expectancy for
65 year old males:
83

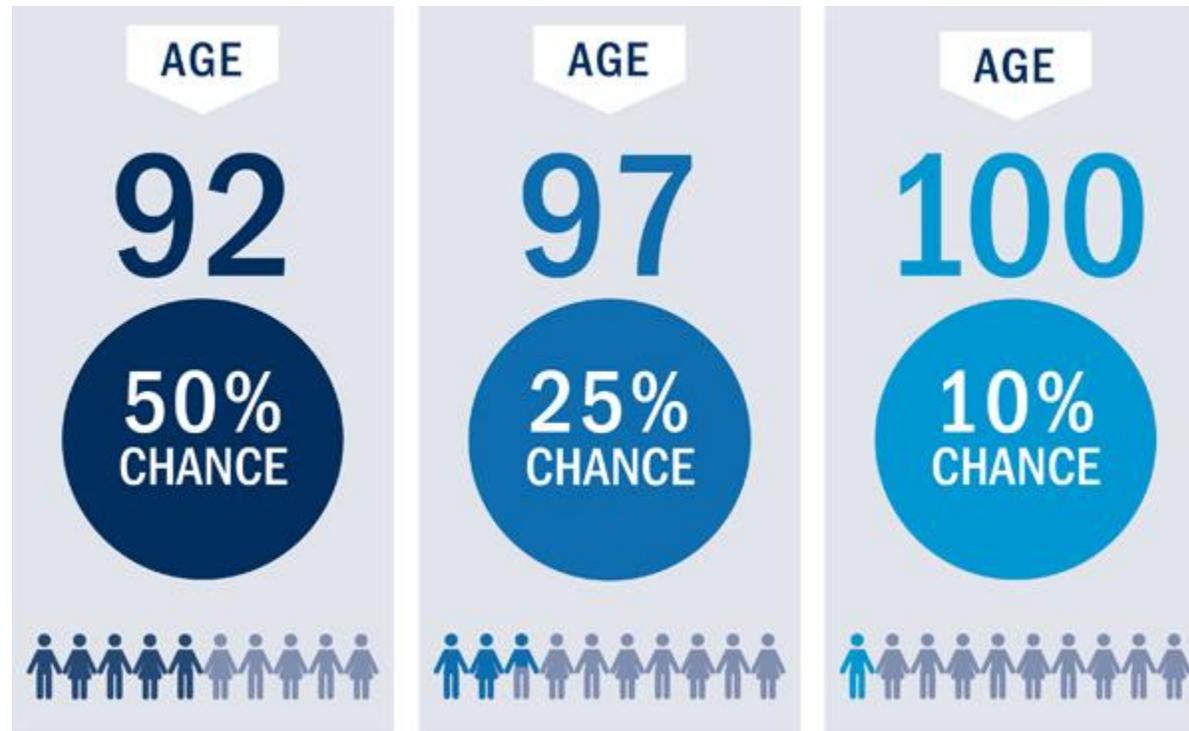
Life expectancy for
65 year old females:
85

Chance of one spouse
living to age 97:
25%

Source: <https://www.census.gov/prod/cen2010/reports/c2010sr-03.pdf>

For information on confidentiality protection, no sampling error, and definitions, see www.census.gov/prod/cen2010/doc/sf1.pdf

“How long will you live?”



File & Restrict Spousal Benefit Case Study

Social Security Benefits			
	Age 62	Age 66	Age 70
Joe	\$1,675	\$2,416	\$3,434
Cyndi	\$681	\$982	\$1,396
Spousal Benefit	\$837	\$1,208	-

Assumes 2.5% inflation

Deemed Spousal benefit; both file at Age 66; cumulative combined benefits at Age 90: **\$1,392,459**

Cyndi Files for her benefit at age 66: Joe files a Restricted application for half of Cyndi's benefit at age 66. Joe files for full benefit at age 70. Cyndi automatically gets the spousal excess now that Joe has elected: **\$1,545,026**

Difference between the two strategies: \$152,567

Do Over (or Reset) Strategy

Once in a lifetime

Must be requested within one year of initial claim for benefits

Must pay back all benefits received – for both the individual and the spouse, if applicable

✓ Form 521 “Request for Withdrawal of Application” available at

www.socialsecurity.gov



Start, Stop, Restart Strategy – (Voluntary Suspension)

- Must reach FRA or later to suspend benefits
 - ✓ Can restart benefits at any time
 - ✓ Suspended benefits grow by 8% a year to age 70
 - ✓ If benefits are not restarted until age 70, monthly payments will be 32% higher than that at FRA for life
 - ✓ There is no additional growth beyond age 70

NOW WHAT?

“Will I outlive my money?”

44% of Baby Boomers and Gen-X-ers are projected to lack adequate income for their basic retirement and health care expenses.

Determining a strategy begins with asking:

- What are your current income needs?
- What do you anticipate your retirement income needs will be?
- How can you close the gap between the two?





HOW CAN YOU CLOSE THE GAP BETWEEN THE INCOME YOU HAVE AND THE INCOME YOU NEED?

What other sources of retirement income do you have?

What Are Your Current Income Needs?

What Do You Anticipate Your Retirement Income Needs Will Be?

- ✓ Retirees typically require 80-100% of their pre-retirement income to maintain their lifestyle after they stop working.
- ✓ Social security typically provides 40% of a worker's needed income.

Budget Worksheet

Income: Monthly Amt:		Income: Monthly Amt:	
Wages, Salaries & Tips		Social Security (Spouse 1)	
Commission		Social Security (Spouse 2)	
Bonuses		IRA Distributions (Spouse 1)	
Interest Income (Sav. CD, Bonds, etc.)		IRA Distributions (Spouse 2)	
Dividends (Stock, M's, ETF's, etc.)		Rental Property	
Gifts (Inheritance, Trust Fund, etc.)		Privately Funded Loans	
Alimony &/or Child Support		Other	
Pension(s) & Life Annuities		Other	
Total Monthly Income		Total Monthly Income	

Expenses: Monthly Amt:		Expenses: Monthly Amt:	
Household		Transportation	
Mortgage Principal & Interest		Auto Loan 1	
Real Estate Taxes		Auto Loan 2	
Rent		Auto Insurance	
Insurance - Home/Rental		Fuel	
Maintenance - Supplies		Repairs	
Utilities - Gas/Electric		Other	
Water - Sewer		Other	
Cable - Phone - Internet		Total	
House Cleaning		Health	
Cell Phones		Health Insurance	
Other		Life Insurance	
Other		LTC Insurance	
Total		Disability Insurance	
Daily Living		Medicine - Drugs	
Groceries		Veterinarian - Pet Care	
Dining - Eating Out		Other	
Clothing - Dry Cleaning - Laundry		Other	
Salon - Massage - Manicure		Total	
Other		Debts, Loans	
Other		Credit Cards	
Total		Student Loans	
Entertainment		Alimony - Child Support	
Home - Shows - Events		Other	
Sports - Hobbies - Lessons		Other	
Dues - Memberships		Other	
Vacation - Travel		Total	
Other		Charity, Gifts	
Other		Charitable Contributions	
Total		Gifts - Birthday - Christmas	
Total Monthly Expenses		Other	
Total Discretionary Income		Other	
		Total	

HOMEWORK ASSIGNMENT - App Pg. 32

Income from Retirement Accounts

(Roth IRA's, IRA's, 401(k)'s, 403(b)'s, etc.)

Pros:

- ✓ Potential for matched funds from employer.
- ✓ You maintain some or all control over your account.
- ✓ Tax deductible when contributions are made.

Cons:

- ✓ Potential loss due to market risk.
- ✓ Fully taxable at distribution (except for Roth's).
- ✓ You take the risk of investment decisions and income distributions.

Defined Benefit Pension Plans

Pros:

- ✓ Fully funded by the employer, not the employee
- ✓ Simple
- ✓ Benefit is a known amount

Cons:

- ✓ Only one plan
- ✓ No say in investment
- ✓ Most are not inflation-adjusted
- ✓ Fully taxable

Investments

(Dividends and interest from stocks, bonds, mutual funds, CD's, etc.)

Pros:

- ✓ You maintain control over your account.
- ✓ Potential for tax-advantaged forms of income (long-term capital gains).
- ✓ Taxes are paid on earnings only.

Cons:

- ✓ You still have to pay taxes.
- ✓ Potential loss due to market risk.
- ✓ Subject to reinvestment risk.
- ✓ No guarantee of principal protection, growth, or income.
- ✓ You take the risk of investment decisions and income distributions.

Annuities – Deferred or Immediate

Know the Difference:

- ✓ Variable
- ✓ Indexed
- ✓ Fixed
- ✓ Immediate

Pros:

- ✓ You maintain control over your account.
- ✓ If non-qualified, tax deferral on earnings and no mandatory distributions.
- ✓ Potential for guaranteed principal, growth, and income for life.

Cons:

- ✓ They often require a longer-term commitment.

Annuities are long-term investments. Guarantees are subject to the claims paying ability of the issuing insurance company. Annuities contain mortality, expense charges, account fees, management and administrative fees, and charges for features and riders. Additional fees apply for living-benefit options. Investment restrictions may also apply for all living benefit options. Violating the terms and conditions of the annuity contract may void guarantees. Gains from tax-deferred investments are taxable as ordinary income upon withdrawal. Withdrawals made prior to age 59 ½ are subject to a 10% IRS penalty tax and surrender charges may apply. Variable annuities are subject to market risk and may lose value. Equity Indexed Annuities (EIAs) are not suitable for all investors. EIAs permit investors to participate in only a stated percentage of an increase in an index (participation rate) and may impose a maximum annual account value percentage increase. EIAs typically do not allow for participation in dividends accumulated on the securities represented by the index. Annuities are long-term, tax-deferred investment vehicles designed for retirement purposes. Withdrawals prior to 59 ½ may result in an IRS penalty, and surrender charges may apply.

Permanent Life Insurance

Know the Difference:

- ✓ Whole Life
- ✓ Indexed Universal Life
- ✓ Term Life

Pros:

- ✓ You control your account.
- ✓ Income tax-free loans and withdrawals up to the cost basis.
- ✓ No penalties for early access.
- ✓ No required minimum distributions.
- ✓ If you don't use it while you're alive, you leave your heirs a leveraged death benefit.

Cons:

- ✓ Takes time to get a plan up and running.

BEGIN NOW!

PREPARE FOR A
COMFORTABLE RETIREMENT



**THIS GUIDE TO SOCIAL SECURITY BENEFIT OPTIONS
HAS BEEN BROUGHT TO YOU BY:**



A 501(c)(3) Non-Profit Organization

THANK YOU FOR ATTENDING!

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SOCIAL SECURITY BENEFITS & MEDICARE: THE A, B, C, D'S

Workshop Schedule

King University
10950 Spring Bluff Way
Knoxville, TN 37932

Blount County Library
508 N Cusick St
Maryville, TN 37804

Thursday, May 9
10:00 am - 12:00 pm

Thursday, May 9
6:00 pm - 8:00 pm

OR

Tuesday, May 14
10:00 am - 12:00 pm
Sharon Lawson Room

Tuesday, May 14
6:00 pm - 8:00 pm
Dorothy Herron Room

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